

RAEX-Europe confirmed the credit rating of Zenith Energy Ltd. at 'B-' according to the international scale. The rating outlook remains developing.

RAEX-Europe confirmed the credit rating of Zenith Energy Ltd. at 'B-' (Moderately low level of creditworthiness) according to the international scale. The rating outlook is developing which means that in the mid-term perspective there is an equal probability of downgrade, upgrade or maintenance of the rating score.

The next review is expected on 18 November 2020.

JUSTIFICATION OF THE RATING:

The Agency has confirmed the credit rating of Zenith Energy Ltd. at 'B-', while the outlook remains developing. The committee decision to extend the developing outlook was made due to the fact that the annual report from FY 2020 (March 2020) is still not available and the outcome from most of the announced potential acquisitions from Zenith is still not clearly defined. Thus, we will perform a full review in November 2020 once the financial statements are available and, potentially, there could be more clarity in terms of completed acquisitions. As of today, the company's main asset is the Italian operation of gas and electricity production, followed by its working interest in Tunisia, which is still pending regulatory approval; while entity Zenith acquired in 1H 2020, AAOG Congo (AAOGC), does not own the Tilapia license anymore.

Updates on announced and potential deals:

Tunisia

Zenith Energy announced on 11 June 2020 that, through its wholly owned subsidiary Zenith Energy Netherlands, it made a payment of USD 250 000 of a total consideration payable of USD 500 000 to be fully paid in October 2020 to Kuwait Foreign Petroleum Exploration Company K.S.C.C (KUFPEC), in order to acquire a 22,5% working interest in the North Kairouan permit and the Sidi El Kilani Concession. According to the company, the oil produced from Sidi El Kilani since the date of signing of the sale and purchase agreement (SPA), announced 20 April 2020, will belong to Zenith Netherlands.

Furthermore, the company signed an additional SPA, with a USD 300 000 consideration payable, with CNPC International (Tunisia) for the acquisition of a working interest in the same assets as the previous acquisition. CNPC International has a working interest of 22,5% in the licenses. This brings the overall working interest of Zenith Energy in Tunisia to around 45%, for which the company has calculated to be equivalent to approximately 300 bopd.

However, the completion of both of these acquisitions has not yet been officially approved by the Comité Consultatif des Hydrocarbures of the Republic of Tunisia.

Republic of the Congo

After acquiring AAOGC for GBP 200 000 back in May 2020, which still has total receivables of approximately USD 5,3 m from Société Nationale des Pétroles du Congo (SNPC), Zenith Energy Ltd. created Zenith Energy Congo SA. This entity was established after the Ministry of Hydrocarbons requested it to do so in order for its previously sent application (through AAOGC) for the Tilapia II license to be taken into account. Moreover, Zenith Energy informed on 10 August 2020 that the Plan for the Continuation of Activities was finished and the operations of the Tilapia license were completely transferred from AAOGC to a subsidiary of SNPC. Currently, Zenith

Energy Congo SA is awaiting the resolution from the Ministry of Hydrocarbons in regard to the assignment of the Tilapia II license.

In the same jurisdiction, Zenith Energy announced on 7 July 2020 that it entered into a joint venture agreement with a local oil & gas company with the goal to acquire an oil production license in the Kouilou region of the Republic of the Congo in proximity of Pointe-Noire, which is also near Tilapia.

Nigeria

Zenith Energy announced on 16 June 2020 that it will participate in a bid round for a marginal oil field organized by the Nigerian Department of Petroleum Resources as a technical and financial partner to a Nigerian energy company. Moreover, as of 16 June 2020, Zenith announced that it had pre-qualified for the next round. This means that the Nigerian energy company and Zenith have been deemed by the Nigerian Department of Petroleum Resources as having enough technical and financial requirements to proceed, according to Zenith Energy.

West Africa

Back in March 2020, the company announced that it was in the final stage negotiations with a national authority in West Africa for an oil production asset. There has not been any further update since then.

Italy

Zenith Energy Ltd. terminated the SPA entered into with Coro Energy plc in regard to the potential acquisition of Coro's entire Italian natural gas production and exploration portfolio as a result of negative profitability of the target, as well as the company's focus in Africa.

Updates on funding:

- The company is still negotiating a potential offtake agreement with an international oil major in order to provide funding for Zenith's development objectives in Africa;
- Zenith has announced that it is in the negotiations with two pan-African financial institutions in order to obtain financing to fund the expanding activities in Africa;
- Zenith Energy's Italian subsidiary received approval to obtain loan of EUR 300 000 from an Italian governmental entity at an interest rate of 0,85% for 6 years and a grace period of 24 months;
- The company plans to apply for a second loan of an undisclosed amount in order to support its Italian business unit for investments in natural gas, condensate and electricity production operations;
- Zenith Energy has a Letter of Intent (LOI) from Arab institutional investors interested in the development opportunities in Africa. According to Zenith Energy, the investors plan to provide an investment of USD 2 m in Zenith's share capital priced at 2,5 pence per Zenith common share. However, the potential investment is subject to a number of conditions, such as:
 - Successful completion of the Tunisian Acquisition, currently pending regulatory approval as mentioned above;
 - Successful acquisition of two oil production licenses currently being negotiated with a national oil authority in West Africa.
 - Appointment of a director proposed by the investors to Zenith Energy's board.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- A continued increase in production as forecast alongside maintaining low levels of production costs which would translate in consistently positive operating cash flows;
- Substantial geographic diversification of production, which would reduce the company's exposure to systematic risk of one single economy combined with an improvement in the market and competitive position in the countries where the company operates;
- Improvement of the liquidity position of the company.

The following developments could lead to a downgrade:

- Continued lack of production which would translate in consistent negative operating cash flows and, thus, potential non-repayment of the company's liabilities;
- Non-materialization of the acquisition targets, which would make it harder for the company to generate organic growth;
- Lack of additional funding which would raise concern on the ability of the company to fund the required investments and repay its obligations.

COMPANY PROFILE:

Zenith Energy Ltd. is an international oil and gas exploration, development and production company with a focus in Italy and Africa. The Group's principal assets are a 45% interest in the Sidi El Kilani Concession in Tunisia, pending approval and various working interests in 13 onshore exploration and production properties in Italy.

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
27.05.2020	Unscheduled review	B-	Developing
30.04.2020	Unscheduled review	B+	On watch
18.11.2019	Initial assignment	B+	Stable

Minute's summary:

The rating committee for Zenith Energy Ltd. was held on 17 September 2020. The quorum for the rating committee was present. After the responsible expert presented the factors which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Corporate methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment:

- [Methodology for Assigning Corporate Credit Ratings – Full Version \(from November 2018\)](#)
- [Methodology for Assigning Country and Industry Score – Full Version \(from November 2018\)](#)

Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

This rating is solicited. The rated entity participated in the rating assignment process.

No other third party participated in the preparation of the rating.

Main sources of information:

- Questionnaire from Zenith Energy based on the form provided by the Agency
- IFRS Quarterly reports for the past five years
- Audited IFRS Annual reports for the past five years
- Company's 2020 Investor Presentation
- Zenith Energy Anti-Corruption and Bribery Policy
- Zenith Energy Group Chart
- Answer for additional request based on the form provided by the Agency
- Other relevant documentation was also provided by the company
- Information from media and other public sources.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the company with information considered as the most reliable and up to date in accordance to the overall position of the company and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating process.

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Office responsible for preparing the rating

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